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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [KZ](#)  
SUBJECT: CPC PIPELINE EXPANSION MOVES FORWARD, BUT  
QUESTIONS REMAIN

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4(B) and (D)

**¶1.** Summary: (C) During his December 20 visit to Moscow, President Nazarbayev announced that Russia and Kazakhstan have agreed in principle to increase the capacity of the Caspian Pipeline Consortium (CPC) pipeline. Arman Darbayev, KazMunayGas Executive Director for Oil Transportation, later told Poloff that he believes that CPC expansion will occur by 2011. Darbayev said that some questions remain regarding Kazakhstan's role in the Bourgas - Alexandroupolis pipeline. Moreover, even with its expansion the CPC will only meet a fraction of Kazakhstan's oil transportation needs by 2015.  
End Summary.

**¶2.** (U) After his December 20 meeting with President Putin in Moscow, President Nazarbayev announced that Russia and Kazakhstan agreed in principle to expand the Caspian Pipeline Consortium (CPC) pipeline. In his public statement, Nazarbayev stated that the two countries will increase the CPC's capacity to 1.34 million barrels per day from 600,000 b/d. Nazarbayev also announced that Kazakhstan would be involved in the Bourgas-Alexandropolis pipeline project, without giving details, and that oil exports via the Atyrau-Samara pipeline will be increased to 500,000 b/d from 300,000 b/d.

**¶3.** (C) Arman Darbayev, KazMunayGas Executive Director for Oil Transportation, told Poloff on December 27 that significant progress has been made on the four issues hampering CPC expansion - increased tariffs, lower interest on the loans extended by shareholders to CPC, a debt restructuring, and the provision of extra volumes from CPC to the Bourgas - Alexandropolis pipeline (BA). Darbayev believes that CPC pipeline expansion will occur by 2011.

**¶4.** (C) Darbayev addressed Kazakhstan's involvement in the Bourgas - Alexandropolis (BA) pipeline. Kazakhstan has always viewed BA participation and CPC expansion as "simultaneous," and Russia "has generally agreed with this." Nevertheless, Kazakhstan is "a little confused" by BA, he said. According to Darbayev, Kazakhstan had expected to approach Greece and Bulgaria with Russia to discuss the pipeline. Instead, Kazakhstan was left out of the process. Darbayev sees "many commercial issues" with BA, particularly because most of the oil will initially come from the Tenghiz field. What will Chevron do if they do not have a share of BA?, he asked. The TenghizChevron consortium developing the Tenghiz field will not make any guarantees to BA if they are

only shippers, he said.

¶5. (C) Poloff asked Darbayev if Kazakhstan tied CPC expansion to its participation in the new Caspian gas pipeline from Turkmenistan to Russia. Darbayev said that no connection was made, calling the new gas pipeline "a political issue." He added that he had no direct role in the gas pipeline talks but that he has examined the agreement, which he said "resembles a CIS document." Asked to explain, he said that the document is short on details and may create problems in the future.

6 (C) Darbayev also offered a broad overview of Kazakhstan's future oil transportation needs. According to Darbayev, Kazakhstan expects to produce 130-150 million tons of oil by ¶2015. They expect to ship 50 million tons via CPC, 15-20 to China, 15-20 via Atyrau - Samara, and 50-80 million tons via the KCTS (Kazakhstani Caspian Transportation System). Poloff asked Darbayev what Kazakhstan will do if any of the pipelines do not meet their envisioned capacity. Darbayev replied that another CPC might be an option, and that a new pipeline from Baku is also needed.

¶7. (C) Comment: Kazakhstan appears to finally have forward momentum on CPC pipeline expansion, a key priority for the country. Nevertheless, if current 2015 estimates hold true, only approximately 1/3 of Kazakhstan's oil exports will be transported via the CPC. Therefore, while Kazakhstan publicly trumpets CPC expansion, private statements by President Nazarbayev (he recently told both the Ambassador and President Gul of Turkey that Kazakhstan is interested in a Trans-Caspian pipeline, while not specifying whether for oil or gas) and planned or completed infrastructure acquisitions in Romania, Turkey, and Georgia indicate that Kazakhstan's oil transit strategy maintains a significant cross-Caspian focus. End Comment.

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